

September 18, 2009



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government securities market posted a 198.1 percent performance rate during the 182-day Treasury bills auction of September 17, 2009. The average 182-day Treasury bills rate was 8.073 percent during this week's auction.

The average interbank rate decreased by 70 basis points in the week ending September 17, 2009 to 3.64 percent compared with the previous week at 4.34 percent. The number of deals and value decreased significantly in the week ending September 17, 2009.

The Kenya Shilling on average depicted mixed performance against all the major international currencies during the week ending September 18, 2009. Against the US dollar, the shilling strengthened to exchange at Ksh 75.57 in the week ending September 18, 2009 compared with Ksh 76.04 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,249 million (equivalent to 3.67 months of imports) as at September 18, 2009 compared with US dollar 3,074 million (equivalent to 4.04 months of imports) as at September 18, 2008.

The money market liquidity improved in the week ending September 16, 2009, largely on account of substantial Government payments and net redemptions of maturing Treasury securities in the week.

The Government gross domestic debt increased by Ksh 25.6 billion, from Ksh 518.3 billion in June 2009 to Ksh 543.9 billion as at September 11, 2009. From July 1, 2009 to September 11, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.34 billion.

Performance at the equities market was mixed during the week. Equity turnover increased by 56.1 percent, market capitalization improved by 0.4 percent while the NSE 20 Share index shed off 25.9 points to settle at 3064.4 points on September 17, 2009.

Government Securities Auction

The Government securities market posted an impressive 198.1 percent performance rate during the 182-day Treasury bills auction of September 17, 2009. The Government offered for sale Treasury bills worth Ksh 7.0 billion and received bids totalling Ksh 13.9 billion.

The Government accepted Treasury bill bids totalling Ksh 7.9 billion, of which Ksh 7.4 billion or 93 percent were in competitive bids. The proceeds of the auction were used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 7.8 billion in the week and provided new borrowing of Ksh 0.1 billion.

The Bank issued new 2 and 5 year Treasury Bonds for a total amount of up to 11 billion. Total bids received amounted to Kshs 15.45 billion representing a 140 percent subscription. The number of bids received was 354 (competitive and non-competitive) of which 266 bids were accepted. The total amount accepted was Kshs 11.01 billion.

Treasury Bills and Bonds Rates

The average 182-day Treasury bills rate declined by 3.0 basis points, from 8.103 percent in the previous auction security to 8.073 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 182-day Treasury bills rate declined from 8.313 percent to 8.242 percent. The average yield to maturities for Treasury bonds was 10.19 percent and 11.11 percent compared to the previous issues which recorded 10.06 percent and 10.86 percent on the 2 and 5 year bonds, respectively

Table 1 : Interest Rates

Auction date	06Aug09	13Aug09	20Aug09	27Aug09	03Sep09	10Sep09	17Sep09
Average 182 day T. Bills	8.126		8.121		8.103		8.073
Month	Jan09	Feb09	Mar09	Apr09	May09	Jun09	Jul09
Average savings rate	2.10	2.13	1.90	1.91	1.67	2.08	1.67
Average overdraft rate	13.84	13.46	13.78	13.66	14.13	14.41	13.94

Source: Central Bank of Kenya

Interbank and REPO Market

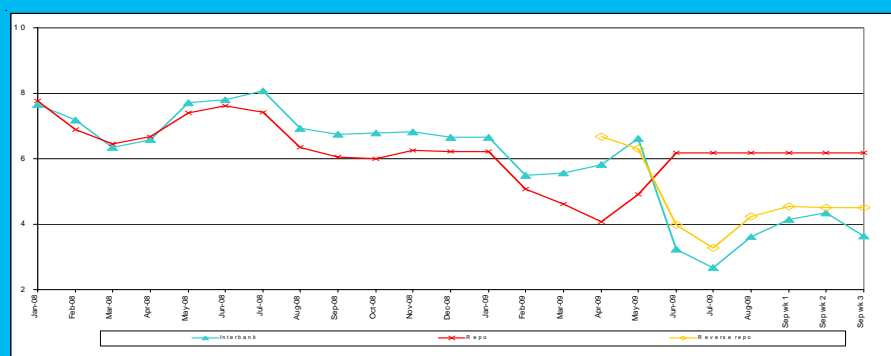
The average interbank rate decreased by 70 basis points in the week ending September 17, 2009 to 3.64 percent as compared to the previous week at 4.34 percent. The number of deals and volumes decreased from 508 to 355 and from Ksh 88,674 to Ksh. 57,837 respectively during the week ending September 17, 2009. The market was liquid in the week ending September 17, 2009 because of government payments and net redemptions of Treasury bills.

Table 2 Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Aug 28 - Sep 03, 2009	508	84,300	4.14
04-Sep-09	108	20,281	4.24
07-Sep-09	101	17,004	4.28
08-Sep-09	109	18,287	4.34
09-Sep-09	105	16,451	4.39
10-Sep-09	85	16,651	4.43
Sep 04 - Sep 10, 2009	508	88,674	4.34
11-Sep-09	100	16,883	4.42
14-Sep-09	55	10,618	4.16
15-Sep-09	72	10,886	3.75
16-Sep-09	66	10,737	3.09
17-Sep-09	62	8,713	2.77
Sep 11 - Sep 17, 2009	355	57,837	3.64

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against the major international currencies during the week ending September 18, 2009 (Table 3). Against the US dollar, the shilling strengthened to exchange at Ksh 75.57 in the week ending September 18, 2009 compared with Ksh 76.04 per US dollar in the previous week mainly due to foreign exchange inflows from offshore investors. The shilling also strengthened against the Sterling Pound to trade at Ksh 124.82 per Sterling Pound in the week ending September 18, 2009 compared with Ksh 125.49 per Sterling Pound in the week ending September 11, 2009. The Kenya Shilling weakened against the Euro and the Japanese Yen to trade at Ksh 110.76 per Euro and Ksh 83.17 per 100 Japanese Yen in the week ending September 18, 2009 compared with Ksh 109.95 per Euro and Ksh 82.38 per 100 Japanese Yen respectively in the previous week.

In the regional scene, the Kenya Shilling weakened against the Uganda Shilling and strengthened against the Tanzania Shilling to exchange at Ush 25.96 per Kenya Shilling and Tsh 17.29 per Kenya Shilling in the week ending September 18, 2009 compared with Ush 26.24 per Kenya Shilling and Tsh 17.25 per Kenya Shilling in the previous week respectively.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
07-Sep-09	76.23	124.88	108.97	81.97	26.17	17.20
08-Sep-09	76.14	124.56	109.19	82.11	26.20	17.23
09-Sep-09	75.93	125.64	110.12	82.22	26.27	17.27
10-Sep-09	75.96	125.73	110.76	82.43	26.26	17.26
11-Sep-09	75.93	126.66	110.69	83.19	26.28	17.27
Sep 7- Sep 11, 2009	76.04	125.49	109.95	82.38	26.24	17.25
14-Sep-09	75.83	125.70	110.10	83.73	25.99	17.28
15-Sep-09	75.81	125.99	110.79	83.11	25.92	17.25
16-Sep-09	75.71	124.66	111.08	83.47	25.96	17.24
17-Sep-09	75.57	124.93	111.40	83.12	25.88	17.30
18-Sep-09	74.95	122.80	110.43	82.40	26.05	17.39
Sep 14- Sep 18, 2009	75.57	124.82	110.76	83.17	25.96	17.29

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,249 million (equivalent to 3.67 months of imports) as at September 18, 2009, compared with US dollar 3,074 million (equivalent to 4.04 months of imports) as at September 18, 2008 (Table 4). The decline in import cover reflects a higher import bill in the past year. The official foreign exchange reserves have increased gradually since May 2009.

Foreign exchange reserves held by the commercial banks, and predominantly used by the private sector to meet external financial obligations decreased from US\$ 2,177 million as at end of July 2008 to US\$ 1,614 million as at end July 2009.

Table 4: Official Foreign Exchange Reserves (US\$ Million)

	18-Sep-08	31-Mar-09	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	04-Sep-09	18-Sep-09
Usable Reserves	3,074	2,620	2,608	2,789	3,086	3,097	3,154	3,166	3,249
Months of Imports Cover*	4.04	3.13	3.11	3.22	3.55	3.52	3.54	3.58	3.67
Months of Imports Cover**	3.67	2.61	2.59	2.80	3.10	3.12	3.18	3.19	3.27

*Based on 36 month average of imports of goods and non-factor services

**Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Monetary Policy Operations

The money market was liquid in the week ending September 16, 2009 following increased government spending and net redemptions of Treasury bills. As shown in Table 5, the Central Bank stayed out of the market during the week. During the week, maturing reverse repo securities amounted to Ksh 2.0 billion. Reserve money averaged Ksh 167.9 billion in the week, rising above target for the first time since November 2008.

Table 5: Open Market Operations (Ksh Billion)

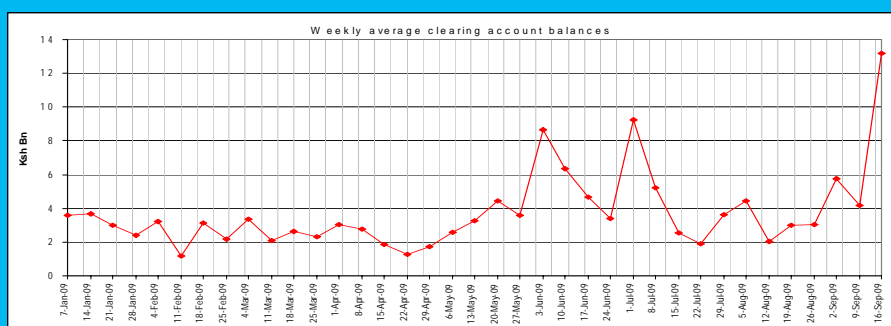
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Injected	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
10-Sep	160.8	164.7	-4.0	0.0	0.0	0.0	159.3	-5.4	-0.6	-4.8
11-Sep	165.1	164.7	0.4	0.0	0.0	0.0	165.7	1.0	6.1	-5.1
14-Sep	173.2	164.7	8.5	0.0	0.0	0.0	172.9	8.1	14.1	-5.9
15-Sep	172.9	164.7	8.1	0.0	0.0	0.0	172.2	7.4	12.5	-5.1
16-Sep	168.4	164.7	3.7	0.0	0.0	0.0	169.3	4.6	10.6	-6.1
Average	168.1	164.7	3.3	0.0	0.0	0.0	167.9	3.1	8.6	-5.4

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 13.2 billion in their clearing accounts at the Central Bank in the week to September 16, 2009, compared with Ksh 4.2 billion held in the previous week (Chart B).

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**Government
Domestic
Debt**

The Government gross domestic debt increased by Ksh 25.6 billion, from Ksh 518.3 billion in June 2009 to Ksh 543.9 billion as at September 11, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 11.8 billion in Treasury bills excluding repos and Ksh 17.7 billion in Treasury bonds. However, the increase was offset by decreases of Ksh 2.7 billion in overdraft at the Central Bank of Kenya and Ksh 1.2 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 128.5 billion as at September 11, 2009 while the Treasury bonds increased from Ksh 360.7 billion to Ksh 378.5 billion. However, the overdraft at the CBK decreased from Ksh 5.1 billion to Ksh 2.4 billion while other domestic debt decreased from Ksh 34.9 billion to Ksh 33.7 billion during the period. Long-term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 75.4 percent in June 2009 to 74.5 percent as at September 11, 2009 while Treasury bills holdings increased from 24.4 percent to 25.3 percent during the period. As a result, the maturity profile of Government securities decreased from 3 years and 9 months to 3 years and 8 months during the period.

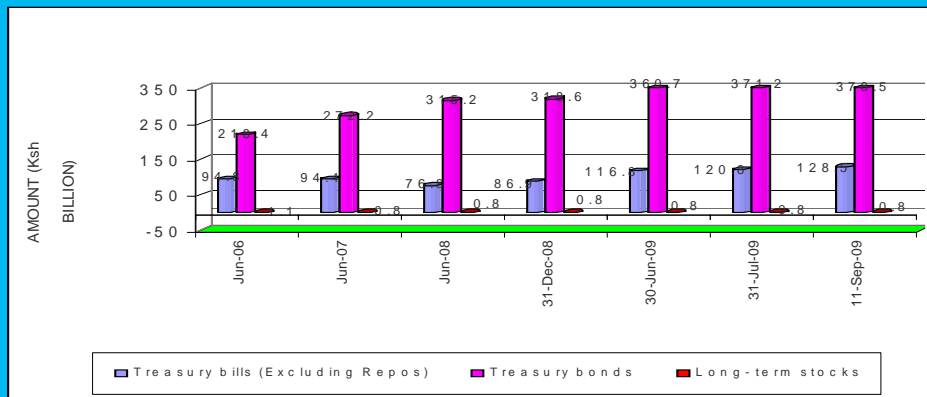
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	4th Sep 2009	11th Sep 2009	Changes 4th Sep-09 - 11th Sep-09	30th Jun-09 - 11th Sep-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	97.9 22.6	116.8 24.4	127.6 25.2	128.5 25.3	0.9 0.1	11.8 0.9
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	334.4 77.2	360.7 75.4	378.5 74.7	378.5 74.5	0.0 -0.1	17.7 -0.9
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	478.3	506.8	507.8	0.9	29.5
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	2.4	2.4	0.0	-2.7
6. Other Domestic debt [†]	37.8	34.9	35.4	34.9	33.6	33.7	0.1	-1.2
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	542.9	543.9	1.0	25.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	9.8	10.3	0.5	

[†] Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCS.

Source: Central Bank of Kenya

Chart C: Composition of Government Securities

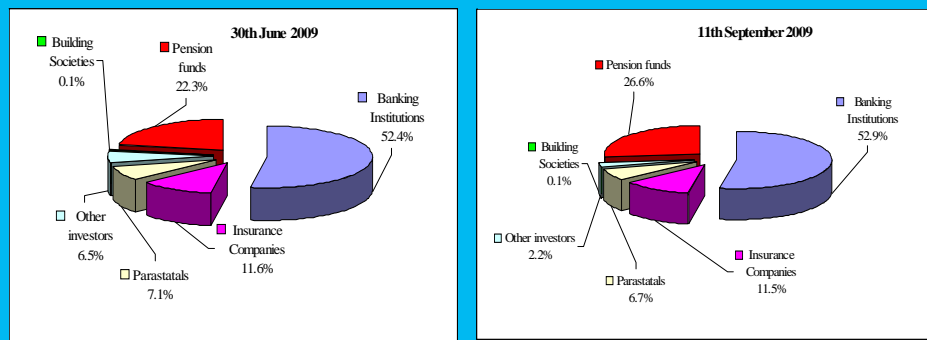


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by pension funds and commercial banks increased from 22.3 percent and 52.4 percent, respectively, in June 2009 to 26.6 percent and 52.9 percent as at September 11, 2009. On the other hand, holdings of insurance companies, parastatals and other investors decreased from 11.6 percent, 7.1 percent and 6.5 percent, respectively, in June 2009 to 11.5 percent, 6.7 percent and 2.2 percent during the same period. Holdings of building societies however remained unchanged at 0.1 percent.

Chart D: Composition of Government Securities by Investor

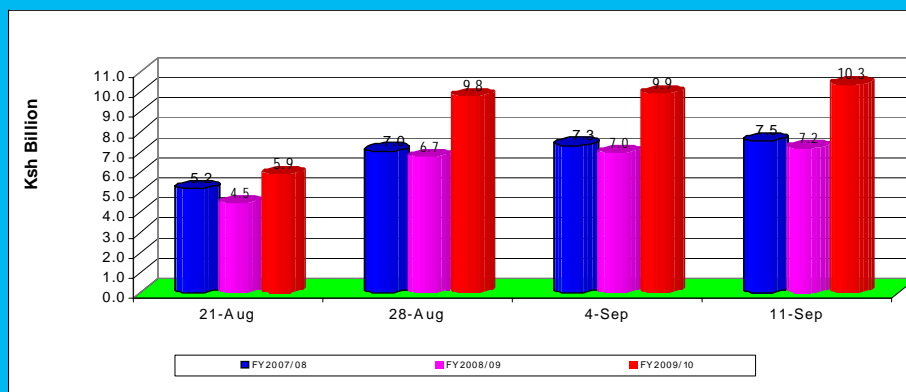


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to September 11, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.34 billion as shown in Chart E. The interest cost on domestic debt during the period comprised Ksh 7.88 billion in interest and other charges on Treasury Bonds, Ksh 2.46 billion in interest and other charges on Treasury Bills and Ksh 0.01 billion in interest on Government overdraft at Central Bank of Kenya.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was a mixed performance at the equities market during the week ending September 17, 2009. Equity turnover increased by 56.1 percent as stocks worth Ksh 831.3 million were traded compared with Ksh 532.5 million traded in the previous week. The number of shares traded increased, from 34.4 million in the previous week to 64.1 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth improved by 0.4 percent or Ksh 3.2 billion to close at Ksh 789.4 billion in the week under review from Ksh 786.2 billion in the previous week. The NSE 20 Share index lost 25.9 points to settle at 3064.4 points on September 17, 2009 from 3090.3 points on September 10, 2009. The Nairobi All Share Index gained 0.3 points to settle at 68.2 points on September 17, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09	20-Aug-09	27-Aug-09	03-Sep-09	10-Sep-09	17-Sep-09
NASI 100=Jan2008	71.79	70.99	71.81	71.12	69.40	67.53	69.42	67.87	68.15
NSE 20 Share Index 100=1966	3,317.62	3,246.09	3,237.20	3,255.19	3,183.71	3,099.92	3,188.87	3,090.31	3,064.42
Number of Deals	8,196	8,410	7,233	7,546	8,842	5,498	7,039	6,847	6,766
Total Shares Traded (millions)	52.61	59.02	68.72	58.16	80.50	58.42	52.96	34.36	64.06
Equity Turnover (Ksh. millions)	633.49	687.17	771.91	638.29	722.18	647.46	812.45	532.49	831.29
Market Capitalization (Ksh. Bn.)	831.36	822.15	831.60	823.64	803.69	782.26	804.13	786.22	789.42
Bonds Turnover (Ksh. millions)	1,087.15	1,375.00	828.35	1,302.80	1,073.00	2,721.80	1,760.40	4,391.10	1,445.90

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 39.3 million shares and accounted for 61 percent of total traded volume. Safaricom traded 38.0 million shares to be the most active stock in the sector. The Finance and Investment sector traded 18.4 million shares and accounted for 29 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 7.4 million and 5.8 million shares and were the most active counters in the sector. Industrial and Allied sector traded 5.5 million shares and accounted for 9 percent of traded volume. Mumias and E.A Breweries were the most

active counters and traded 2.3 million and 1.9 million shares, respectively. The other sectors had minimal trading.

Bond Market Bond market trading declined at the Fixed Income Securities Market during the week. Bonds worth Ksh 1.4 billion were traded compared with Ksh 4.4 billion traded in the previous week.